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AIM JOURNAL

In this issue

AIM 50 outperformance

AIM as a whole has outperformed the Main Market in 2013 but the best performance has come from the FTSE AIM 50 index of the largest UK-based companies on AIM, which has risen by more than 43%. This is the third year in a row that the FTSE AIM 50 index has outperformed AIM as a whole.

The FTSE AIM All Share index improved by one-fifth in 2013, which is less than half the growth in the FTSE AIM 50 but still better than the near-17% increase in the FTSE All Share. This outperformance is not purely a matter of size, it is also about the weighting of the sectors. The FTSE AIM 100 index rose by 22.6% in 2013. This index includes the same companies as the FTSE AIM 50 but it has a much greater weighting of mining and oil companies, which have not performed as strongly in recent years. There are mining and oil businesses in the FTSE AIM 50 and three out of the six constituents whose price declined in 2013 were resources companies.

This is not just short-term outperformance. Over a five-year period from the beginning of 2009 the FTSE AIM 50 index has increased by 162% compared with a 110% increase in the FTSE AIM All Share index and a 59% rise in the FTSE All Share index (see page 9).

Atlantis rides AIM tide

Singapore-based tidal energy technology developer Atlantis Resources Corporation plans to raise £20m via an AIM flotation. Part of the proceeds will be used to try to get a tidal energy project in Scotland up and running by early 2015.

Atlantis (www.atlantisresourcesltd.com) was founded in 1996 and Morgan Stanley, which owns a 45.7% stake in the company, became involved when Atlantis bought tidal energy project developer Current Resources, which was owned by the investment bank. Last November, Atlantis bought out the other shareholders in MeyGen Ltd, which has consent for an 86MW project in the Pentland Firth offshore area of Scotland. This is the first phase of the MeyGen project, which includes six tidal turbines. The project could eventually have a capacity of 398MW.

The waters around Scotland are believed to cover around one-quarter of the whole tidal resource for Europe. MeyGen could be the first commercial tidal energy project in Scotland. Construction should begin in a few months and it could be generating electricity in early 2015. Rolls-Royce director Dr John Neill has joined the Atlantis board as chairman.

HubInvest publishes AIM Journal
www.hubinvest.com

general news

Pallet maker RM2 bags £137m from AIM placing

Pallets developer and manufacturer RM2 International has raised £137.2m in order to finance the development of its business in North America. RM2 is valued at £278.3m at the placing price of 88p a share. RM2 has developed a product but it has yet to generate revenues from the BLOCKPal pallet.

After expenses of £6.4m, RM2 raised £130.8m. One-third of this cash will be used to pay off loans and retire warrants. The rest will finance the expansion in production capacity and the manufacture of pallets for rental. The initial focus is North America before moving into the European market. Brambles accounts for nearly half of the US pallet rental market so it will not be easy to break into the market.

The BLOCKPal is a multi-use pallet made of glass fibre and resin composite. The composite makes the pallet stronger and more durable. RM2 believes that a BLOCKPal pallet can be used more than 70 times before it breaks, although the tests have not yet been finalised. It is also possible that the BLOCKPal can be repaired. In contrast, only 15% of standard pallets are used more than 20 times. RM2 has already spent seven years developing its products and services. However, the only revenues come from a tracking business acquired last autumn.

Investec is the largest shareholder, with a 40.2% stake, and it bought more shares in the placing. On 6 November 2013, 22.275m shares were issued to Invesco for $0.01 a share.

Small Cap Awards

The second annual Small Cap awards will be held at the Grange St Pauls Hotel in London on 21 May 2014. The event is designed to shine a light on the most successful companies with a market value of less than £100m. The awards are supported by the London Stock Exchange and ISDX and will be attended by fund managers and advisers. Award categories include IPO of the year, transaction of the year and small cap hero, given to an individual or company that has best promoted the small cap company cause. Further details are available from www.smallcapawards.com or via email info@lilyandpiper.com.

Regular networking club The Small Cap Club provides more regular networking events for the small cap company community. The next event, which is free to attend, will be held on 5 February (www.smallcapclub.co.uk).

Total farms-in to IGas and Egdon shale licences

IGas Energy and its partners, including fellow AIM-quoted oil and gas explorer Egdon Resources, have signed a farm-in agreement with French oil and gas giant Total. The deal covers the potential shale gas licences of PEDL139 and PEDL140 in the Gainsborough Trough in Lincolnshire. Total will eventually acquire a 40% interest.

RPS estimated that there could be 13tcf of gas in place in the licence areas. Of this, RPS believes that 9tcf is accessible and a 15% recovery factor would equate to around 1.35tcf. Recovery factors for shale assets tend to be low.

The deal should be completed by the end of June and needs to be approved by the government. Total is paying an initial $1.6m (£1m) contribution to cover past costs. Total will then finance up to $46.5m (£29m) of a work programme, with a minimum commitment of $19.5m (£12m). The cash will be spent on 3D seismic, the drilling and testing of a vertical exploration well and, assuming the tests on the first well are positive, the drilling and testing of a horizontal appraisal well. Once the investment has been made Total will become the operator of the licences. The other shareholders will be Dart Energy with 17.5%, IGas with 14.5%, Egdon with 14.5% and eCorp Oil & Gas with 13.5%.

Total already has shale gas interests in the US, Argentina, China, Australia, Poland and Denmark.

The government has announced that local authorities that allow fracking in their area will receive 100% of the business rates paid on the projects, rather than 50% as is usual. The oil companies have also said that they will give local communities £100,000 for test drilling and 1% of the revenues if shale gas is produced.

advisers

Further consolidation for AIM advisers

The New Year has started with further consolidation in the small company broking sector, with AIM adviser Allenby Capital acquiring fellow AIM-focused broker First Columbus.

First Columbus has moved into Allenby's offices following its purchase. Its clients include Quadrise Fuels, iodine producer Iofina, consumer products developer Litebulb, safe insecticides developer TyraTech, oil and gas explorer Enegi Oil, biodegradable plastic products developer Biome Technologies, media marketing company reach4entertainment, plastic components manufacturer Plastics Capital and Pakistan-focused coal project developer Oracle Coalfields. These are either sole or joint brokerships. The two firms have worked together in the past on xG Technology, the US-based wireless communications company which recently switched from AIM to NASDAQ. The combined firm will have around 50 retained clients most of which are quoted on AIM. Some, though, are on the Main Market or ISDX.

It is not just the broking sector that is consolidating, so is the legal sector. The merger between solicitors Wragge and Lawrence Graham creates the top law firm in terms of the combined market value of clients. Birmingham-based Wragge had spare cash that it was looking to invest in a firm with a London presence. Talks started in 2009 but the economic uncertainty meant that no merger happened at that time. Lawrence Graham subsequently had talks with Field Fisher Waterhouse but they did not lead to a merger either. Wragge and Lawrence Graham restarted merger talks last year.

The partners have voted in favour of the merger but the official tie-up date is in May 2014. The firm will have ten offices around the world.

finnCap, sponsor of AIM Journal, raised £200m for its clients in 2013 and £110m of that was in the fourth quarter. finnCap also reports a "significant increase in secondary trading volumes". "With improving market sentiment and the strength of our client base we look forward to continuing our positive momentum in 2014", says finnCap chief executive Sam Smith. finnCap has raised more than £1bn for its clients since it was launched.

AIM adviser WH Ireland says that both its broking and wealth management operations have performed more strongly than expected in the second half of the year to November 2013. WH Ireland has warned that there will be significant one-off costs in the past year. The full annual figures will be released by the end of February.

Although many brokers are showing signs of improved trading on the back of the recovery of AIM, Daniel Stewart Securities has hardly experienced that upturn yet. In the six months to September 2013, revenues declined from £2.56m to £2.11m, but the reported loss barely declined from £998,000 to £982,000. Annualised overheads have been cut by £1m.

Cash in the bank fell from £1.18m to £488,000 over the past six months. That suggests that the cash outflow needs to be reduced or Daniel Stewart will need to raise more cash. The NAV has fallen from £3.79m to £2.81m – including £2.16m of goodwill.

Daniel Stewart raised £12m for clients during the period, compared with £18m in the same six months of the previous year. The number of retained brokerships has fallen from 46 to 33 over 12 months. There are positive signs, with October and November close to breakeven and December should have been profitable.

ADVISER CHANGES - DECEMBER 2013

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Weatherly International	RFC Ambrian/Shore	Numis/Shore	RFC Ambrian	Numis	02/12/2013
Max Petroleum	Charles Stanley/Oriel	Oriel/Macquarie	WH Ireland	WH Ireland	05/12/2013
Kea Petroleum	WH Ireland	WH Ireland	WH Ireland	RBC	13/12/2013
Powerflute	Numis	Canaccord Genuity	Numis	Canaccord Genuity	16/12/2013
Frontier Resources	WH Ireland/Beaufort	Beaufort	Beaumont Cornish	Beaumont Cornish	19/12/2013
China Private Equity Investment	Laurel	Smith & Williamson	WH Ireland	Smith & Williamson	24/12/2013
Premier Gold Resources	WH Ireland	Sanlam	WH Ireland	Sanlam	24/12/2013

company news

Avesco dividend payout from Disney litigation rewards investor patience

Broadcast services *www.avesco.com*

AVESCO (AVS)			221.5p
12 MONTH CHANGE %	+17.8	MARKET CAP £M	57.5

Broadcast equipment and services provider **Avesco** is paying a special dividend of 110p a share out of the proceeds of successful litigation with Disney. Avesco is also buying back 7.6m shares from major shareholder Taya at 124.185p a share – after the shares have gone ex-dividend.

All this is subject to shareholder approval at a general meeting on 22 January and, if approved, the cash will be paid to shareholders on the register the day after.

Avesco received £50.6m, or £44.5m after expenses, from the court case relating to US revenues from the TV quiz show Who Wants to be a Millionaire? Disney held the US rights to the programme and there was a dispute over the money it owed to a former subsidiary of Avesco.

The dividend will cost £30.6m and the share buy-back will cost £9.9m. Pro forma net debt is estimated to be £18.1m and the NAV will be enhanced by the buy-back, taking it to around 190p a share. Chairman Richard Murray will defer £3.4m of his payment until June 2014 and £2m until September 2014, which will give Avesco headroom on its banking covenants.

> In 2010, Taya offered up to 35p a share for Avesco

At the beginning of 2010, Taya offered between 28p a share and 35p a share for Avesco and subsequent events have proved that the Avesco board was completely correct to reject this offer. Taya will be left with 200,000 shares so that Murray's stake does not increase to 30%. Taya has done well anyway because the buying price for its shares was a fraction of the buy-back price and dividend combined.

After a strong 2011-12 thanks to the Olympics Avesco fell into loss in the year to September 2013 but this year will be much better because it includes the football World Cup in Brazil. Edison forecasts a 2013-14 profit of £3.8m. Forecast earnings per share will be enhanced from 10.9p a share to 12.6p a share by the share buy-back. The shares are trading at a significant discount to pro forma NAV.

Bglobal plans focus on metering software

Smart metering services *www.bglobalplc.com*

BGLOBAL (BGBL)			7.75p
12 MONTH CHANGE %	+ 31.9	MARKET CAP £M	8.24

Bglobal has put its metering and data services business up for sale to concentrate on its core software business. There is no certainty that the business will be sold but at the moment this appears the preferred strategy as smart meter installation continues to be slower than hoped.

Bglobal has secured £1m of annual cost savings although some of these are in the metering business so the ongoing business will not benefit by that much. Net cash was £1.22m at the end of September 2013 and this should be enough for the business until the meters business is sold – that should also reduce working capital requirements for inventories. The company's tax losses will also go with the meters business.

In the six months to September 2013, revenues improved from £5.82m to £6.17m and the post-amortisation, underlying operating loss declined from £1.66m to £1.41m.

The core software business increased its profit contribution from £143,000 to £359,000. This business helps energy suppliers to set up and will benefit from additional new entrants to the energy market. Energy management is still a new operation being built up by Bglobal and it is moving towards profit. There are plans to franchise the training operations in order to reduce the loss.

company news

Customer acquisition pays dividends for Digital Globe Services

Online customer acquisition *www.dgsworld.com*

Digital Globe Services is trading in line with expectations and on course to pay an attractive annual dividend. DGS is benefiting from the move towards online advertising because it helps its clients to add new customers at as low a cost as possible.

The main customers are in the telecoms and cable sectors but the client base is being widened both in terms of sectors and geographically. Newer sectors include solar, home automation and education.

In November, DGS acquired an operation described as the Education Business Unit (EBU) for up to $3.8m in cash and shares. This business generates annualised pro forma EBITDA of around $400,000 and enables DGS to enter the education sector using its dgSMART technology platform. The business was acquired from Ampush and DGS will continue to offer lead generation services to its customer base. This adds to the North American focus of the business but DGS is building up its business in Europe.

Revenues are set to more than double over three years

Revenues are set to more than double over the next three years. This year's profit should be more than $5m, helped by last November's acquisition. The prospective multiple for 2013-14 is 23 but that is expected to fall to 18 in 2014-15.

DIGITAL GLOBE SERVICES (DGS)			242.5p
12 MONTH CHANGE %	N/A	MARKET CAP £M	72.4

DGS paid a 1.07 cents a share dividend for 2012-13 but that reflects the fact that the company was quoted for a few months of the financial year. A dividend equivalent to 7.86p a share is forecast by N+1 Singer for 2013-14, rising to 10.23p a share in 2014-15. That means that the shares yield 3.2%, potentially rising to 4.2% in 2014-15. DGS can afford to pay these dividends and still build up its cash in order to finance add-on acquisitions. DGS has net cash following the $7.7m (£5m) raised at 159p a share in the flotation last February.

Contract wins will hold back Incadea profitability

Motor dealership software *www.incadea.com*

Motor dealership software provider **Incadea** says that trading was strong in the last few months of 2013 and organic revenue growth was 20%. However, new business wins will hit profitability in 2014, which means that profit will decline for a second year due to investment in new contracts.

Incadea is an international business but there are still new markets being added. The new contracts include the roll-out of Incadea's software to the dealer network of a major European car maker across the whole of Europe and the eastern European dealer network for a premium-branded European car manufacturer, plus new business in Turkey, the Middle East and Egypt. Two more large contracts are due to be signed in the first quarter of 2014. These contracts will add 57,000 users over the next five years.

INCADEA (INCA)			113p
12 MONTH CHANGE %	+ 2.3	MARKET CAP £M	57.3

There was net debt of €2.2m at the end of 2013 – a net cash position had been forecast at the time of the interims. A €15m working capital facility has been secured and this lasts for five years. There will be investment in the systems for the new customers during 2014 and these systems should be up and running in 2015. This will enable recurring revenues to grow and make overall revenues more predictable.

The shares are trading on 20 times estimated earnings for 2013 but this will rise to 23 for 2014. A successful contract roll-out should enable profit growth in 2015.

company news

APC Technology continues its transformation into energy efficiency business

Energy efficiency products *www.apc-plc.co.uk*

APC Technology Group is beginning to reap the benefits of its investment in energy efficiency products. APC has won a significant LED lighting installation contract with supermarkets group Morrisons and this underpins its growth.

Morrisons has awarded a number of contracts to APC but there are still a large number of stores where the LED lighting has yet to be installed. This means that additional Morrisons contracts should continue to provide a strong base for this year's figures.

During the past financial year, APC took full control of energy efficiency business Minimise, which was formerly an associate. This was the main reason for the jump in revenues last year. Minimise contributed £9m in 2012-13 – two-fifths of group revenues. There were minimal revenues between APC and Minimise in the previous year. In the year to August 2013, APC's revenues grew from £13.6m to £21m, while underlying pre-tax profit improved from £29,000 to £365,000.

Minimise contributed two-fifths of revenues

Net cash was £1m at the end of August 2013, following the £3m raised from a placing to help finance the Minimise stake acquisition. The business should become more cash generative and net cash could be £1.9m by August 2014.

Recently appointed joint broker N+1 Singer forecasts a 2013-14 profit of £1m on revenues of £25.7m. The broker says that there is room for an upgrade with the electronic components side, which it has assumed will be flat over the year, showing signs of improvement. The shares are trading on 40 times prospective 2013-14 earnings. A profit of £2m has been pencilled in for 2014-15.

Longer-term growth will come from international cleantech operations and new products added to the range. Even so, there is still scope for continued growth in the UK.

APC TECHNOLOGY GROUP (APC)			56p
12 MONTH CHANGE %	273.3	MARKET CAP £M	32.4

Nasstar reversal gives enlarged business greater scale

Cloud computing services *www.nasstar.com*

Cloud computing services provider **Nasstar's** acquisition of e-know.net has broadened its customer base and range of products. Both companies provide hosted desktop services for businesses with Nasstar focused on smaller businesses and the acquisition bringing larger customers.

e-know.net was established by David Redwood in 2000 and Northern Venture Managers is one of its main backers. Nasstar is paying £12.35m in cash and shares for e-know.net and it is raising £10.5m from a placing at 5p a share.

A recruitment business, which signed a five-year contract in 2010, provides 19% of e-know.net's revenues. The recruitment, legal and financial sectors are the main focus of the business and accounted for more than three-quarters of last year's revenues. Nasstar uses third-party datacentres but e-know.net has its own datacentre in Telford which has plenty of spare capacity. In 2012, Gartner forecast that there would be 77m users of hosted desktops around the world by 2016.

NASSTAR (NASA)			6.13p
12 MONTH CHANGE %	- 53.7	MARKET CAP £M	21.7

Nasstar founder Charles Black will leave the company and the executive directors will come from the acquired business. Nigel Redwood will take over as chief executive and Niki Redwood will become finance director. David Redwood will be non-executive deputy chairman.

Nasstar has been loss-making but the combined business should move into profit this year and more than 85% of its revenues will be recurring. The year end is being changed to December and the first figures for the enlarged group will be to December 2014. Revenues of £10.3m and a profit of £800,000 are forecast. That would put the shares on a multiple of around 30 times prospective 2014 earnings.

API returns to the dividend list

Packaging, security products *www.apigroup.com*

Dividend

Foils and packaging supplier API has reinstated its dividend. Management has turned around the fortunes of the business in recent years and it promised a dividend this year when it reported the 2012-13 figures. This is the first dividend since 2001 and reflects a strong recovery in the business.

The interim dividend is 0.7p a share, which will cost around £540,000. A total dividend of 2p a share is forecast, rising to 2.2p a share in 2014-15. This year's dividend is four times covered by forecast earnings.

The business is highly cash generative so it can afford to pay a growing dividend. Net debt was £5.6m at the end of September 2013. The year-end net debt figure was £2.6m but the interim borrowings tend to be seasonally higher. The £13.5m borrowing facility with HSBC lasts until the end of 2017. The net pension deficit is £10.1m.

Business

API makes and distributes foils, films and laminates that enhance the appearance of packaging and labels. The holographics business helps to prevent counterfeiting of products, tickets and currency. The customer base includes premium brands in food, spirits, tobacco, perfume and healthcare.

API has two main shareholders – Steel Partners and Wynnefield Capital – which own 62% of the company. In February 2012, they asked API's board to seek bids for the company and its assets. This took one year and no suitable offers were forthcoming. In the year to March 2013, there were exceptional costs of £1m which were split between the costs of the formal sales process that ended in February and restructuring charges.

API (API)	
Price	75p
Market cap £m	57.6
Historical yield	Nil
Prospective yield	2.7%

In the six months to September 2013, revenues dipped from £58.8m to £56.9m, while underlying profit declined from £4m to £2.9m. The foils businesses reported higher profits even though the US business was disrupted by the implementation of new software. The holographics division fell into loss due to the loss of a major contract and costs are being cut.

API did not manage to repeat the corresponding period's strong performance in the laminates division but the full-year outcome for the group should show some improvement. A 2013-14 profit of £7m is forecast, up from £6.6m (pre-exceptional charges). The shares are trading on just over eight times prospective 2013-14 earnings, falling to seven in 2014-15 – based on a profit forecast of £8.8m.

The fact that two shareholders own the majority of the shares is probably part of the reason why the forecast multiple for API is relatively low. Tax losses also mean that there is little or no tax charge. At the end of March 2013 there were £2.82m of UK tax losses, unrecognised UK capital allowances of £3.88m and US tax losses of $8.96m. If a standard tax charge is assumed, the 2013-14 multiple would be nearer 11.

Dividend news

Isle of Man-based value investor **Terra Capital** has a new dividend policy, which is to provide shareholders with an annual yield of at least 3.5% of year-end net asset value. Terra will distribute 80% of the value of the cash and stock dividends received during the year, even if this provides more than the target yield. If this is not enough to make a yield of 3.5% then up to 100% of the dividends received will be distributed. Any shortfall from dividends received will be topped up so the yield is 3.5% of the NAV. This year's dividend will be announced by 1 February.

Avanti Capital cannot pay the full 105p a share dividend it initially said it would pay out of the sale proceeds of its stake in Eclectic Bar Group when it floated on AIM. This is because Avanti does not have enough distributable reserves. A 62p a share dividend will be paid on 16 January to shareholders on the register on 27 December. The share price has gone ex the full dividend of 105p a share. A capital reorganisation will need to be undertaken so that the remaining 43p a share can be paid. Avanti raised £9m for the sale of its Eclectic stake. The total dividend will cost £8.43m.

Online gaming company **GVC Holdings** has increased its third interim dividend to €0.115 a share for those shareholders on the register on 24 January. The previous two interims were €0.105 a share each. A final dividend will be declared in April. GVC expects to report better than expected EBITDA on the back of improved fourth-quarter trading. Underlying net gaming revenue was €168.7m, while there has been a 50% reduction in the cost base inherited from Sportingbet. GVC has moved all of its operations to the Sportingbet platform.

expert views

Expert view: The broker

Hope springs eternal for Sorbic

By DUNCAN HALL

Sorbic International,* a China-based producer of sorbates for food preservatives, still has some operational challenges to surmount on its path to increasing group capacity, but the relationship with US-based APAC is proving valuable in giving the group greater certainty on orders, and will allow Sorbic to focus capacity on higher-margin opportunities.

Once compensation issues are resolved along with the loan note repayment, investor attention will concentrate on the potential for sustained export growth and the improved balance sheet. The share price should then more fairly reflect NAV and group earnings potential.

Capacity growth

The structural growth plan for the group always envisaged doubling production capacity to 15,000 tonnes through opening a new plant in Inner Monglia. However, this planned expansion was brought to a halt during the year by local authority imposed relocation demands. The focus has switched to constructing a new, enlarged facility in LinYi, close to the existing plant. However, the new build project's timing is dependent on the outcome of compensation negotiations with the LinYi authorities, as is closure for the Inner Mongolia expansion where compensation discussions were temporarily stalled once the LinYi opportunity emerged. Negotiations have been restarted and the group believes both these talks and those for LinYi can be concluded over the coming six months.

Assuming compensation packages are resolved by mid-calendar 2014, construction at LinYi conceivably can begin in Q3 2014, making Q2 2015 a possible plant commissioning target, although the benefit will arise in 2016.

However, that outcome is still a little way off. The first stage as demonstrated in the latest accounts has been to write down the investment to date in Inner Mongolia prior to determining the compensation package with the local authorities.

Trading

The trading profile of the group has improved and factory efficiencies from more favourable order flows have also helped.

The 2013 trading outcome was much better than expected. After reporting £0.4m for H1 (pre-foreign exchange), the full-year EBITDA was £1.2m. Favourable input price movements helped, as did slightly stronger sales prices for potassium sorbate. Production visibility has been helped by the growing relationship with US-based APAC since 2012 which accounted for 45% of group sales in the period. In practical terms, this represents an increase from £4.3m to £6.5m and the upward sales trend is expected to continue. After a more confident second half, we expect an equally positive outcome for 2014. Sales to the US are expected to continue to grow as the group's relationship with APAC develops.

The upside is that additional higher margin potassium sorbate capacity sold through APAC will provide a strong base for the group and a step change in earnings potential.

The group has two principal debt obligations. One stems from a director's loan arrangement amounting to a net £2.4m obligation (although without an immediate repayment timeframe). The other comprises £2.7m of convertible loan notes. The group extended the convertible loan note repayment date during the year to August 2014 with a conversion price of 9p a share. Sorbic ended the year with £5.3m of cash in China and is exploring how to remit funds to meet loan note and PLC demands, but the group also has funding obligations to consider with regard to the development of new facilities in China as well as working capital requirements.

Estimates

With the core business demonstrating EBITDA of £1.2m, doubling production capacity and being based on one site should generate production efficiencies. Focusing production on the products (potassium sorbate) and customers (APAC) which offer the best margin opportunities should further enhance earnings potential. Thus, estimated 2014 earnings per share could double. However, significant issues remain to be resolved including the convertible loan stock and compensation negotiations

Our 2014 estimate anticipates more of the same after a good second half of 2013. Adjusted NAV after writing down assets in Inner Mongolia (but before any subsequent compensation payments) and assuming conversion of the loan notes equates to 15p a share. The shares are trading at a two-fifths discount to the NAV.

This underpins the share price and, with earnings thereafter on an upward path as new capacity comes onstream, this all suggests an improving share price trajectory once the current structural considerations are resolved.

**Sorbic International is a client of finnCap*

DUNCAN HALL is a research director at finnCap feature

ISA propelled outperformance for AIM in 2013

AIM's larger companies are outperforming the stock market as a whole and this is not the first year that it has happened.

AIM had a good 2013, with the ability to put AIM shares in an ISA giving the junior market a boost in the second half. This helped AIM as a whole to outperform the Main Market, although it is the larger AIM shares that have done the best.

The FTSE AIM All Share index improved by one-fifth in 2013 while the Main Market-focused FTSE All Share rose by nearly 17% over the same period. The larger Main Market companies did not do as well as the mid-sized ones, with the FTSE 100 advancing by 14.4%. Although the FTSE AIM 50 index includes most of the larger AIM companies it is more akin to the FTSE Small Cap index, which also put in a strong performance. The AIM 50 significantly outperformed AIM as a whole.

The AIM 50 rose by 43.4% in 2013 and this is the second year running that it has outperformed the FTSE All Share and the third in a row that it has outperformed the whole of AIM.

Five years

Since the beginning of 2009, the AIM 100 has doubled and the FTSE AIM All Share has risen by 110%. However, the AIM 50 has risen by 162%. The AIM 50 has a lower weighting of resources shares and that has helped it to outperform. The mining sector became increasingly significant over the first couple of years of the period in question but since then it has slumped to less than 8% of the market value of AIM.

Contrast this with the FTSE 100, which has risen 48% over five years. The FTSE Small Cap component of the FTSE 100 has risen by 134.6% over the period but it still underperformed the AIM 50.

The one major Main Market index that has performed better than the AIM 50 is the FTSE Fledgling index, which increased by 174% over the five years. The Fledgling tends to be more of a recovery index, because it includes many companies that run into trouble and fall out of the FTSE All Share index. They are either turned around or languish at the bottom of the market. Many companies that would have been in this index have moved to AIM over the years – broadcast technology company Vislink being a recent example of a company planning the move. That means that the number of companies and, in particular, the market value of the Fledgling index is small.

Only one of the share prices of the current constituents of the AIM 50 fell over the past five years and Canary Wharf property owner Songbird Estates was less than 1% lower over the period. However, there are eight constituents that have not been quoted for five years and there will have been companies that have fallen out of the index that will have done badly.

The share prices of seven of the current constituents of the FTSE AIM 50 are more than ten times the level they were five years ago. That number includes online fashion retailer ASOS, which has risen by nearly 25 times. They also include technology companies mobile banking services provider Monitise and video search technology developer blinkx, which have been able to make strong progress with their businesses and obtain the funding they need thanks to their AIM quotation.

Admittedly, the beginning of 2009 does coincide with the bottom, or at least near to the bottom, after the financial crisis in 2008. There was a sharp fall in 2008 and AIM is back at around the levels it was at the beginning of 2008 as are many Main Market measurements, which did not fall as sharply as AIM during 2008. It is not unusual for smaller companies to initially lose more value and take longer to recover from a stock market slump.

Size

The distribution of the size of AIM companies continues to be dominated by the larger companies. In 2012, 81% of the value of AIM was accounted for by companies valued at £50m or more and this has increased to 84% in 2013. Companies valued at £250m or more account for 47.2% of AIM, up from 41% in 2012. This is via a combination of an increase from 44 to 58 in companies valued at more than £250m and a small increase in average market value of those companies.

At the end of 2008, when AIM was around its low point, the companies valued at more than £50m accounted for 60.6% of AIM, with those valued at more than £250m accounting for 12.9% of the junior market.

feature

Volumes

We wrote an article on the improvement in AIM volumes since August in the November edition (http://www.hubinvest.com/AIMPDFNovember2013_50.pdf). The improvement has continued since September and the growth in average daily bargains has accelerated.

The average daily value of trades was 19.5% higher in October (year on year) and 23.2% higher in November. The average daily bargains increased 15.3% year on year in August. In October, the year-on-year increase was 18.8% and it was 30.4% in November.

The AIM 50 rose by 43.4% in 2013

This improvement is still not enough for total turnover and the total number of bargains for the whole of 2013 to reach 2012 levels because of the underperformance earlier in the year. Even so, in 2013 AIM will still generate the third-largest number of bargains in a year. The value of share turnover in 2013 will be the lowest since 2004, indicating that the average size of each bargain has fallen significantly over the years.

The make-up of the volumes has changed. In 2012, around half of daily bargains were in oil and gas company shares and this has fallen to around 30% in 2013. The number of bargains in companies included in the oil and gas and mining sectors has fallen sharply this year. Consumer goods is the only other sector where the number of bargains has declined. All of the other sectors have increased in terms of number of bargains so they have also increased as a percentage of the total.

The technology sector is increasing in importance thanks to some significant flotations over the past year or so. In 2012, the sector accounted for 6% of bargains and this percentage has almost doubled in 2013.

Money raised by new entrants was higher in 2013 than 2012 and the highest for three years, while fundraisings by existing companies were similar to the previous year. It is still not straightforward for many companies to raise money. If a company is involved in more favoured businesses, such as cloud computing and big data, then it tends to be easier.

Cancellations, including reverse takeovers and reintroductions, fell from 119 in 2012 to 105 in 2013 but there was an even bigger increase in new entrants to AIM – also including reversals and reintroductions – from 70 to 99. These are the reasons why the number of AIM companies at the end of 2013 was similar to 2012 at around 1,090. This is the first time since 2007 that there has not been a significant drop in the number of companies. More companies have joined AIM than left it in three out of the past six months.

The number of technology new admissions has increased from seven to 20, although many did not raise significant amounts of cash at the time of their entrance to AIM so they accounted for a lot less than 10% of the money raised by new entrants.

W&G Investments came and went during 2013 when the shell lost out in the bidding for banking assets being sold by Royal Bank of Scotland.

The overall value of AIM has risen by one-fifth to more than £73bn – that is the highest year-end figure since 2010 and nearly double the market value at the end of 2008.

MARKET PERFORMANCE OVER 5 YEARS

INDEX	% CHANGE
FTSE AIM All-Share	+110
FTSE AIM 50	+162
FTSE AIM 100	+104.4
FTSE Fledgling	+174.4
FTSE Small Cap	+134.6
FTSE All-Share	+58.6
FTSE 100	+47.9

2014

This year the new-issues market has got off to a good start thanks to the £137.2m raised by pallets supplier RM2. Along with the cash raised by the reversals into Nasstar and Healthcare Investment Opportunities, now Collagen Solutions, new entrants have raised more in the first ten days of 2014 than they had by the end of April in 2013.

RM2 could be a one-off, certainly in terms of the size of the fundraising, but there does appear to be a better and more consistent flow of new companies than there has been for some time. The vast majority of last year's new companies joined AIM in the second half.

Only one of the current constituents of the AIM 50 fell over the past five years

Kodal Minerals, which was the last new entrant in 2013, has already raised an additional £1.25m in 2014.

The performance of AIM is partly attributable to the overall state of the world stock markets. As long as the markets remain strong and there continues to be investor demand for existing companies and new companies joining AIM then the junior market should continue to prosper.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	19.7	12.1
Financials	18.3	19.8
Consumer services	13.9	9.5
Industrials	12.2	17.8
Technology	11.3	10.2
Basic materials	7.7	16.5
Consumer goods	6.9	5.6
Health care	6	6
Telecoms	2.7	1.1
Utilities	1.3	1.4

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	850.68	+20.3
FTSE AIM 50	4576.85	+43.4
FTSE AIM 100	3882.93	+22.6
FTSE Fledgling	6453.65	+35.8
FTSE Small Cap	4431.11	+29.6
FTSE All-Share	3609.63	+16.7
FTSE 100	6749.09	+14.4

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	232
£5m-£10m	144
£10m-£25m	232
£25m-£50m	174
£50m-£100m	141
£100m-£250m	108
£250m+	58

KEY AIM STATISTICS

Total number of AIM	1089
Number of nominated advisers	49
Number of market makers	52
Total market cap for all AIM	£73.3bn
Total of new money raised	£83.4bn
Total raised by new issues	£36.5bn
Total raised by secondary issues	£46.8bn
Share turnover value (2013)	£27.4bn
Number of bargains (2013)	4.43m
Shares traded (2013)	273.8bn
Transfers to the official list	164

TOP 5 RISERS OVER 30 DAYS

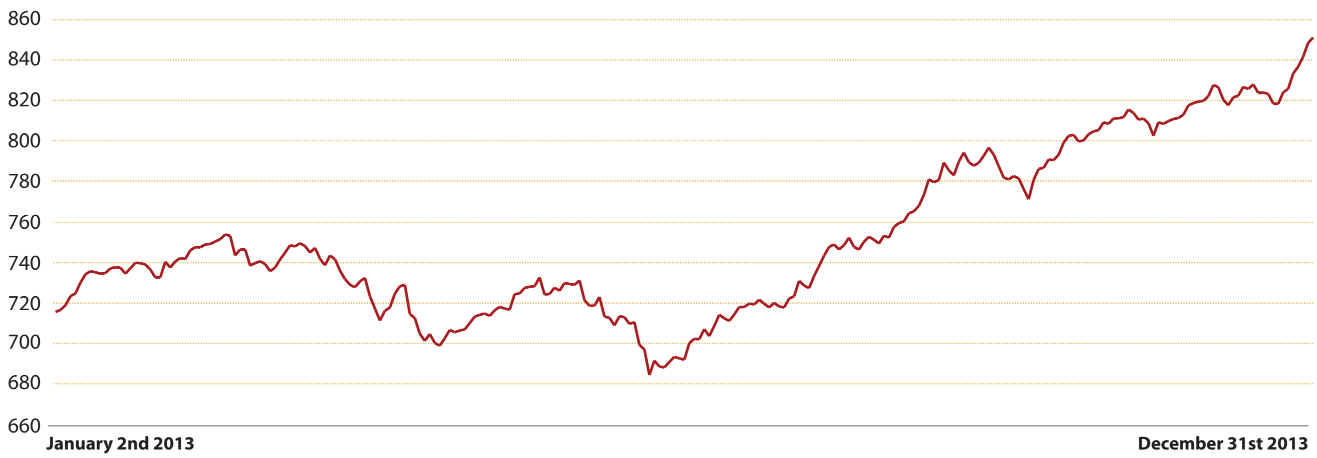
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Alecto Minerals	Mining	2.33	+126.8
Sula Iron & Gold	Mining	3.5	+115.4
Savannah Resources	Mining	6	+100
Sirius Minerals	Mining	14	+97.7
Strategic Natural Resources	Mining	7.62	+84.9

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Ingenious Media Active Cap	Media	6.75	-57.8
Urals Energy	Oil and gs	5.25	-51.2
CSF	Technology	4.88	-45.1
Nasstar	Technology	6.12	-43
Scotgold Resources	Mining	0.47	-42.4

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 30th November 2014, and we cannot accept responsibility for their accuracy.

sponsors

finnCap Partners for growth

finnCap's mission is to help ambitious companies grow and to be the leading independent broker to ambitious companies, focused on fuelling growth through long term partnerships. We will exceed client expectations through faultless execution, joined-up service and proactive thinking, all tailored to the needs of each individual client.

finnCap, whose chairman is Jon Moulton, is 95% employee-owned and is the top AIM broker by overall client numbers, according to research compiled by financial website Morningstar. The broker is also the number one adviser in the technology, industrials and healthcare sectors, number three broker in the oil and gas sector and in the top five in the basic materials sector.

In 2013, finnCap commenced market making and launched fAN Club, a new offering aimed at providing specialist support to ambitious small private businesses seeking pre-IPO funding.

finnCap was presented with the Best Research award at the 2012 AIM Awards, while finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for three years running. finnCap is a sponsor of the AIM Awards, the plc Awards and the UK tech Awards.

In the six months to October 2013, finnCap reported a 22% jump in revenues to £6.9m and operating profit was 74% higher at £1.9m. finnCap has a strong track record of raising money and it raised more than £70m for clients during the period.

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